

## **DLC Privatization Work Group DLC Outstanding Debt Considerations**

### **Overview**

Currently outstanding: \$105 million in DLC Revenue Bonds

- Paid for warehouse and transportation projects

Security is irrevocable pledge of net revenues from sale of alcoholic beverages

Security/rating based on monopoly control

- County's consistent practice of meeting bond covenant by maintaining Pledged Revenues well above promised level of no less than 150% of bond debt service

Any material change to bondholder lien/continued existence of underlying Pledged Revenues:

- Requires majority bondholder approval and a favorable legal opinion
- Trustee approval unlikely without majority bondholder approval
  - o Time consuming, costly, and not guaranteed
- Risk of souring County reputation in the bond market
- Risk of bondholder legal action
- Risk of downgrade, based on lesser level of security than "monopoly control" and the historical levels of Pledged Revenues

Constraints exist over uses for debt-financed warehouse

Legal / IRS / Compliance implications to any options

Other tax-exempt equipment debt is also outstanding (\$5m & FY17 truck purchases)

### **Options for Resolving Outstanding DLC Revenue Bonds**

#### **Require full refinancing/pay off of debt:**

- Independent authority refinance outstanding bonds through issuance of their own debt secured by a new revenue source
- Combination pay-off and refinance
  - o Sell warehouse & use proceeds to pay off part of outstanding bonds
  - o Issue GO Refunding Bonds to refinance remaining outstanding bonds
- Fully refinance outstanding bonds by issuing GO Refunding Bonds
  - o Tax-supported; may be taxable
  - o Warehouse continued partial use or repurposes for governmental use

#### **Potentially allow debt to remain outstanding:**

- Keep privatization narrow & small, without private use of the financed assets to comply with IRS, and to justify to Rating Agencies/bondholders that there is no material change to Pledged Revenues.
- Establish IRS-compliant management contract under current org structure